



PADCO/U.S.A.I.D. SOCIAL SECTOR REFORM PROGRAM
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RECOMMENDATIONS FOR FUTURE REFORMS OF THE SYSTEM OF SOCIAL PROTECTION IN UKRAINE TO FULFIL THE “PLAN ON SOCIAL PROTECTION: 1997 - 2000”

Prepared for XX Novikov, Special Advisor to the Office of the President of Ukraine

Prepared By USAID/PADCO Social Sector Reform Program

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At the request of the Office of the President, this report summarizes the achievements in fulfilling the Plan for Social Protection Reform 1997-2000 in four areas:

- 1) improving the housing subsidy program;
- 2) targeting of child care assistance and other benefits for very poor families;
- 3) reform of the state pension system; and
- 4) monitoring the social protection needs of the population.

The following sections describe the achievements in each of these areas and the recommendations for future actions.

1. HOUSING SUBSIDY PROGRAM

1. ACHIEVEMENTS

In 1997, a total of 6 million families – nearly 15 million people – received assistance at some time during the year in paying for housing and communal services or for liquid gas and solid fuel. By December 1997, 3.4 million families were receiving subsidies for housing and communal services that averaged 34 Hrn per family. Throughout Ukraine, members of families receiving housing subsidies account for 18 percent of the population. For the average family receiving subsidies, the value of the subsidy was equal to 50 percent of per capita family monthly income.

In 1997, a total of 1.4 billion Hrn in subsidies were allocated to the population. The savings in reduced subsidies for housing and communal services exceeded 3.7 billion Hrn – allowing a net budget savings of 2.3 billion Hrn.

The total administrative costs during of the housing subsidy program were about 20 million Hrn – about 1.5 percent of the value of subsidies distributed.

2. RECOMMENDATIONS

1. Increase the share of income families must pay toward the costs of housing and communal services and liquid gas and solid fuel) from 15% to 20%. This will reduce program costs by 250 million Hrn in 1998.
2. Place all housing subsidy offices under dual subordination -- to the Ministry of Labor and Social Policy as well as to local administrations. This will allow greater efficiency in program administration and the creation – with existing local offices of the Ministry – of a single, unified system of providing targeted social assistance to the population.
3. Enact Cabinet decree to improve the methodology for calculating housing subsidies as prepared by the Ministry of Labor and Social Policy.
4. The Administration should emphasize the importance of nationwide implementation of auditing and income verification.

2. TARGETED FAMILY ASSISTANCE

2.1 ACHIEVEMENTS

The Ministry of Labor and Social Policy has implemented a program that provides an additional 6.9 hrn per month per child to all families with children with per capita incomes below 37 hrn.

This provides assistance to about 2.3 million children and assists the poorest families. The Ministry is also developing a draft law to reform the fundamental design of targeted family assistance.

2.2 RECOMMENDATIONS

1. The Government of Ukraine should create a unified system for providing targeted assistance to low income families that includes the following types of assistance;
 - Housing subsidies;
 - Supplementary child care assistance to low income families;
 - Supplementary pension benefits to pensioners and invalids living in families receiving housing subsidies with per capita incomes below a specified level (perhaps 50 Hrn/month which would assist twenty percent of families receiving housing subsidies);
 - Supplementary birth allowances to low income families; and
 - Supplementary funeral allowances for low income families.
1. Housing subsidy offices and local offices of the Ministry of Labor and Social Policy should be merged as a unified system for providing targeted assistance.
2. The Government should establish a targeted assistance threshold each year that reflects the level of family per capita income to which targeted assistance will raise families – based on a fiscally realistic assessment of the costs of providing the targeted assistance.
3. The Government should replace the existing system of privileges with a guaranteed system of targeted assistance.
4. The Ministry of Labor and Social Policy should immediately prepare the normative acts needed to transfer the responsibility for distributing child care assistance for working people from enterprises to local offices of the Ministry of Labor and Social policy. This is needed in order to create the system described in the preceding recommendations.

3. PENSION REFORM

3.1 ACHIEVEMENTS

In 1997, the Pension Fund in collaboration with PADCO developed the software necessary for individual reporting on employee wages to the Pension Fund. This can provide the basis for the reform of enterprise reporting to the Tax Administration, the Social insurance Fund, as well as to the Pension Fund. It will also provide the basis for the creation of a personified database by the Pension Fund that will allow the calculation of benefits based on past contributions and work experience, improve collections, and allow the regulation of private pension funds.

3.2 RECOMMENDATIONS

1. The Government of Ukraine should issue instructions for the coordination of personified reporting by enterprises and entrepreneurs (as described in the accompanying report). This information reporting system should be managed by the State tax Administration.
2. The Pension Fund of Ukraine should be given the responsibility for creating a personified database that shows income, work experience, and contributions to the Pension Fund of all Ukrainians (as described in the accompanying report).
3. The Government of Ukraine should apply for a credit of \$33 million to the World bank for the creation of an individualized reporting system and data base by the Pension fund of Ukraine. This is described in detail in the accompanying report.
4. The Pension Fund should also be given the responsibility for the transfer of all individual work experience and wage information from work books and from local offices of the Ministry of labor and Social policy to the Pension Fund database. All information should be maintained in the central database of the Pension Fund, and the Pension Fund would use this information to calculate pensions due to Ukrainians reaching pension age. The power to calculate pensions should be removed from local offices of the Ministry of Labor and Social Policy by a specified date.
5. The Pension Fund should also be made solely responsible for administering the distribution of pension benefits to eligible people. The Fund should be required to distribute all benefits directly to individual bank accounts by a specified date.
6. Responsibility for collecting all taxes and all contributions to state funds (including the Social Insurance Fund, the Employment Fund and the Pension Fund) should be the sole responsibility of the State tax Administration. The State Tax Administration should also be given sole responsibility for auditing information provided by enterprises and entrepreneurs concerning their incomes, taxes, and fund contributions.
7. Improve the system for projecting revenues and expenditures of the Pension Fund through the development of a computerized model.
8. The Government should develop proposals for the creation of a mandatory, supplemental pension sav-

ings system.

4. MEASURING POVERTY AND MONITORING SOCIAL PROTECTION PROGRAMS

4.1 ACHIEVEMENTS

In 1997, the Cabinet of Ministers created two Social Protection Monitoring Centers that will collect information on the social protection needs of the population and assist in evaluating how successfully programs of the Government meet these needs. Computers and other related equipment for these centers has been acquired by USAID and awaits decisions by the Ministry on the workplan for these centers. Their staff have received training in statistics and data management.

4.2 RECOMMENDATIONS

1. The Cabinet of Ministers should clarify the responsibilities of the Social Protection Monitoring centers to fully utilize the skills and resources already in place in research institutes subordinated to the Ministry of Labor and Social Policy. Clear authority for the management and operation of these centers must be defined.
2. The Cabinet of Ministers should assign to the Institute for Labor and Social policy in Kyiv the responsibility for developing a new methodology for defining the poverty level, in collaboration with the Ministry of Finance, the Ministry of Economy, the Ministry of Health, GosKomStat, and the Ministry of Labor and Social Policy. Reform the methodology of calculating the poverty level to account for differences in type of residence (urban and rural), region of residence, and also family size and characteristics. This is necessary in order to assess how well the housing subsidy program – and other programs of targeted assistance – perform in meeting the social assistance needs of the population.
3. Reform the housing income and expenditure survey conducted by GosKomStat – by improving the sample (and reducing its size), reducing the number of questions, automating data gathering and report preparation procedures, and other steps recommended by international donors. This also is necessary in order to assess how well the housing subsidy program – and other programs of targeted assistance – perform in meeting the social assistance needs of the population.